

GAUGING THE RECOVERY

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Introduction

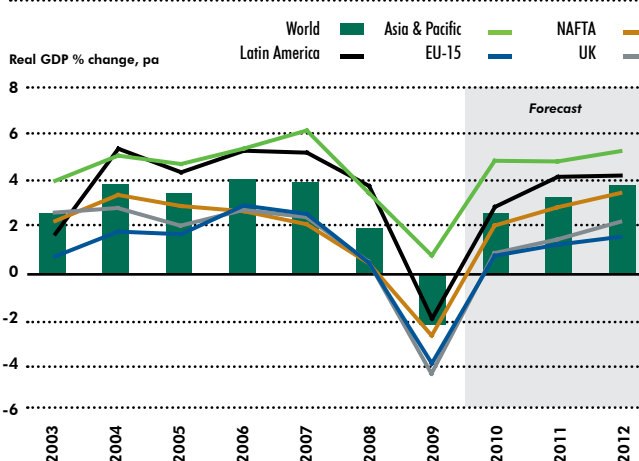
Our last Global MarketView recognized that the global economy had pulled back from the brink, and 3Q data from around the world reinforces this view. Many economic indicators are now flashing positive signals, but the improvement trend is not universal. While the downturn was synchronized, the recovery is clearly not so. Some countries are still suffering negative GDP growth while others are recovering smartly. Emerging markets, led by China, are showing increased vibrancy, while mature markets such as the Eurozone, the U.K. and even North America have been slower to rebound.

Our research has shown that real estate market conditions—both commercial and residential—are highly correlated with overall economic prospects. While no country emerged from the ‘Great Global Recession’ unscathed, countries that avoided speculative bubbles in their real estate markets are today relatively better off economically.

Positive Economic Signs

While the U.S. and European economies represent approximately 50% of world GDP, they are not the engines of the recovery. We certainly cannot dismiss their importance, but based on growth rates, it will be Asia and Latin America that will lead the world recovery. Figure 1 shows growth rates of GDP plotted by major regions and the world. For 2009, all regions except Asia fell into negative territory for GDP, with the U.K. and the Eurozone experiencing the deepest declines.

Figure 1: An Asia-Led Recovery



Source: IHS Global Insight, October 2009

Looking ahead to 2010 and the recovery, there are several matters of note in Figure 1. First, the recovery for world GDP is expected to be just slightly above 2%—not the average of 4% we saw back in the middle of this decade. Second, this recovery will see Asia and even Latin America leading by growth rates, with the European economies experiencing anemic growth.

In addition, we estimated the size of the decline that major countries suffered due to the Great Global Recession. This reflects the depth of the hole out of which these economies must now climb. Figure 2 calculates the peak-to-trough fall in GDP, measured as a percentage of the peak GDP number. With approximately 24% of the world GDP, the U.S. economy has a modest gap compared to the second-, third- and fifth-largest economies in the world—Japan, Germany and the U.K., respectively. China is currently the world’s fourth-largest economy, quickly closing in on Germany’s position.

Figure 2: There is a Deep Hole in GDP

Real 2005 US \$, Billions

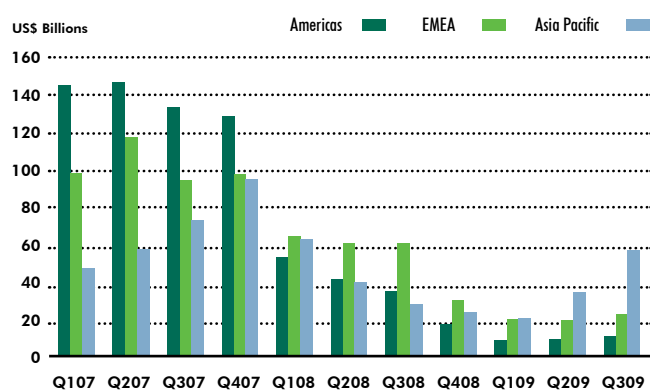
	Total Peak-to-Trough Loss US\$	GDP Gap Calculated from Peak %	Number of Quarters of Negative GDP
U.S.	-489.70	-3.7	5
Japan	-405.65	-8.4	4
Germany	-202.78	-6.7	4
UK	-135.48	-5.6	5
France	-79.82	-3.5	4
Canada	-40.12	-3.3	4
Brazil	-44.44	-4.3	2

Source: IHS Global Insight, October 2009

The combination of deep holes and slow growth rates for the mature economies portends for these countries a slow process of returning to the previous peak levels of GDP. This is a particularly important consideration for commercial real estate, in that real estate demand is dependent on the level of economic activity. Real estate is built to a level of capacity; when demand falls and there is excess capacity, real estate markets must recover to the previous capacity level before they can begin to expand again.

Regional Trends in Commercial Real Estate

The third quarter showed a modest increase in transaction volume across the globe, as reflected in Figure 3. Of particular note is the increase in volume in the Asia region, which was driven by activity in China.

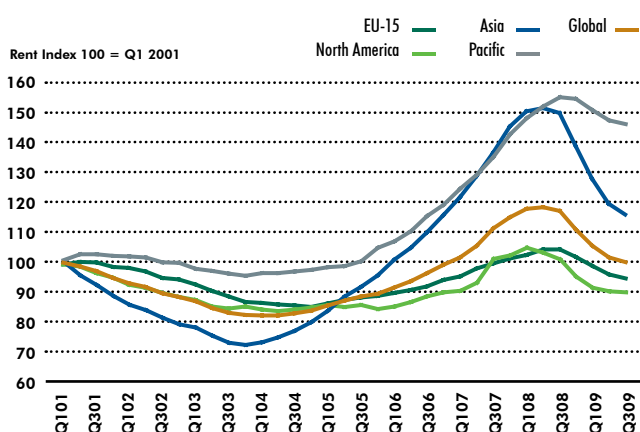
Figure 3: Global CRE Transaction Volume by Region

Source: Real Capital Analytics, November 2009

Also of note is that the Americas, which led in world investment transaction volume back in 2007, has been in last place in terms of volume activity for four quarters in a row.

Conversations with market participants leads us to believe that this volume will rise considerably in 2010.

Figure 4 shows the CBRE Global Office Rent Index, which indicates that office rents are still declining, although the pace is clearly slowing. The regional data shows that the worst is behind us in terms of property fundamentals. The Asia index has shown the greatest volatility over the time period, while activity overall is dominated by the emerging markets.

Figure 4: Regional Global Rent Indices

Source: CB Richard Ellis

REGIONAL COMMENTARY

The U.S. Debt Gap Dominates Concern

The looming threat to commercial property owners in the U.S. is the huge volume of debt—estimated by the U.S. Mortgage Bankers Association at \$360 billion—that will be rolling over this year and next year. A shortfall for funds for expiring debt has put many properties at risk of default as loans mature and are unable to be refinanced.

This has led to concern in the U.S. that there is another “shoe to drop” as commercial real estate owners face a “debt gap.” This is the gap between what owners will

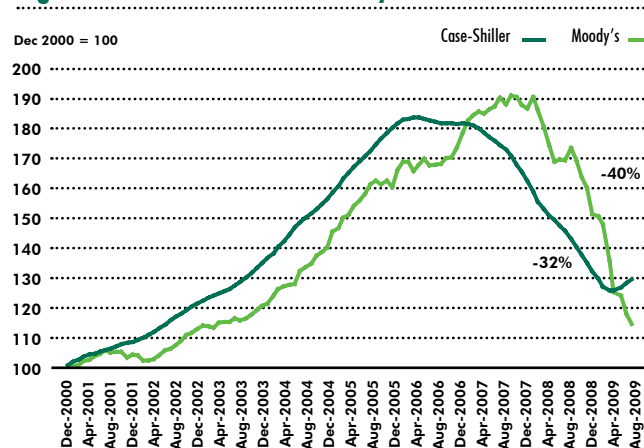
be able to borrow under the new lending standards against the current market value of the commercial asset, and the current loan level when an existing loan becomes due.

Real Capital Analytics classified \$128 billion of commercial real estate as distressed as of September 30, 2009. However, distressed assets have thus far come to the market at a pace that has been slower than expected. Lenders have often preferred to extend existing loans or, if they have taken title of a property, to wait for stronger market conditions before attempting a sale. Recent regulatory action appears to grant borrowers and special servicers more flexibility in modifying troubled loans underlying CMBS. The same is true of the actions of the bank regulators who have issued guidelines that essentially indicate the loan forbearance is acceptable. However, distressed sales that derive from distressed owners and/or distressed properties are expected to pick up in 2010 as lenders unload unwanted assets in a more hospitable environment.

While the debt gap may result in a “second shoe” dropping, the decline in prices—now down close to 40% from their peak in October 2007, according to the Moody’s/REAL Commercial Property Index—has presented opportunity for some investors, particularly in the Class A market. Well-located, well-leased assets are drawing multiple bidders, and new investors are being drawn to the asset class. An example is the all-cash purchase earlier this month of Chicago’s 303 West Madison by an entrepreneur from Mexico for approximately \$60 million.

Debt financing remains generally hard to come by, but risk premiums have diminished sharply since earlier this year, and some lending sources have returned to the market. Commercial mortgages today can be underwritten at as low as 325 bps to 375 bps over Treasuries, but lenders will still require 40% to 50% equity, compared with 25% or less two years ago. Under these terms, several life insurance companies have increased their allocations to commercial mortgages. Separately,

Figure 5: Case-Shiller vs. Moody’s REAL



Source: Moody's, Case-Shiller August 2009

two Wall Street firms have announced plans to restart modest conduit lending programs seeking yields of more than 8%. The government-sponsored enterprises, Fannie Mae and Freddie Mac, remain the principal source of liquidity in the multi-housing segment.

U.S. LEASING MARKETS

Office

The third quarter marked the one-year anniversary of the Lehman collapse, a historic event that triggered the worst of this recession in terms of economic output and labor market conditions. Office markets have continued to favor tenants over the past year. However, tenants have not only cut back on their use of space but have also aggressively cut payrolls, leaving many markets with the headache of shadow vacancy—space that is “occupied” but not being utilized by workers. Expect the negotiating balance to stay toward tenants even after office job losses cease, as employers first fill their shadow space before possibly looking for more space.

Leasing markets continue to deteriorate in the U.S. but at a slower pace. The office vacancy rate increased again in 3Q 2009, rising by 60 bps to 16.1%. Although this was the eighth consecutive quarter of rising vacancy rates, 3Q 2009's rise in vacancy was lower than 2Q's 80-bps increase, and 3Q saw the slowest pace of increase since 4Q 2008.

Along with a smaller vacancy increase, national net absorption in the office market in 3Q was more positive than in 2Q. Across the markets tracked, 8.8 million sq. ft. of additional space was brought onto the market than was leased. The pace of space returned to the market is down considerably from the 15.3 million sq. ft. recorded in 2Q, but is not anticipated to turn positive in the near future.

Vacancy increases were broad-based once again, with 46 of the 57 tracked markets recording rising rates this quarter. Of the 11 markets that recorded unchanged or decreased rates, the Texas markets of Fort Worth, Austin and Houston stand out, as the state's natural resources, high-tech firms and banks' conservative lending practices have helped the local economy to outperform the rest of the country so far in this recession.

Figure 6: US Current Fundamentals vs. History

United States	Office	Industrial	MH	Retail
3Q 2009	16.1%	13.5%	7.4%	12.2%
Historic High Vacancy Rate (Quarter)	19.1% (Q2 1991)	11.8% (Q1 2004)	6.8% (Q4 2003)	11.3% (Q1 1992)

Source: CBRE Econometric Advisors

Industrial

While the level of inventories held by U.S. businesses continues to decline, both industrial production and trade activity began to increase in 3Q 2009—the first positive news in the industrial sector in quite some time. While the outlook for industrial real estate demand remains weak, the milder rise in availability in 3Q was within expectations for the quarter and is consistent with the outlook that the worst of the availability increases is over.

The industrial availability rate increased 50 bps in 3Q 2009 to 13.5%. This marks the eighth consecutive quarter of rising availability and represents the highest

availability rate since CBRE began tracking data on the industrial market. The vast majority of markets experienced rising availability, with 56 out of 61 major markets showing increases from the previous quarter.

Despite the continued rise in industrial availability, the pace of the increases has moderated, compared to the previous three quarters.

The smaller availability increases can be traced to demand contracting at a more moderate pace. In 3Q, 53.3 million sq. ft. was returned to the market, compared to the 19.7 million sq. ft. returned to the market in 2Q.

Retail

Community and neighborhood shopping centers saw the overall retail availability rate increase to 12.2% from the previous quarter, and by 210 bps from a year ago. This was the second consecutive quarter of diminishing increases in availability rates, suggesting that the economic crisis' negative effects on neighborhood and community centers are dwindling.

Though we have not yet turned the corner, this quarter's lower-basis-point gain gives hope that the pace of increases for these retail center availability rates has slowed. Retail sales are showing signs of improvement as well, but the true test will come with the holiday shopping season. The continued increase in availability rates does show that consumers continue to be cautious and that—though the pace may be changing—we are not out of the woods yet. Availability rates should continue to increase through the beginning of 2010.

CANADA

The Canadian economy seems to have weathered the storm: Lower interest rates and the resurgence in the housing market are making the recession short-lived, and consumer confidence is steadily improving with the sense that the worst is over. This recovery has also been aided by the growing demand for commodities on a global scale.

The same cannot be said for the manufacturing sector, which is suffering due to the rapidly increasing Canadian dollar, expected to be par with the U.S. dollar next year. Manufacturers continue to be affected by the slow U.S. economy. The positive news is in the auto sector, which benefited from a brief surge in demand due to increased production stemming from the U.S. "Cash for Clunkers" program this past summer. Employment levels have remained stagnant, for the most part, and this is not expected to improve until into 2010.

The net effect is captured in GDP figures: Canada's GDP was negative 6.1% during 1Q 2009 and negative 3.4% for 2Q 2009. GDP for 3Q has not yet been released, but July was flat and August was negative 0.1%.

The investment market continues to be marked by limited activity. The challenge lies in the lack of product in the market and the continued gap between purchaser and seller expectations. Cap rates have increased but not to the same extent as in the U.S. Market fundamentals, for the most part, remain stable.

Canada's office vacancy rate increased to 9.4% in 3Q 2009, a 110-bps increase from the previous quarter. This increase was predominately due to the new office supply in Toronto and Calgary and the continued weak demand for space nationally. Rental rates increased slightly due to the higher prices of the new office stock, but transaction volume remained soft. Tenant inducements are still prevalent in most submarkets, especially those with higher-than-average vacancy rates. The main challenge faced by the office sector continues to be demand, especially if employment levels remain weak.

Canada's industrial availability rate continues to climb: The rate increased 70 bps from 2Q 2009, to 7.4% in 3Q 2009. The higher Canadian dollar may help imports but will likely further dampen the recovery in the manufacturing sector. This is especially prevalent in Toronto and Montreal, which both have a large manufacturing

presence. Rental rates and sale prices are expected to be flat for the next two quarters.

Retail sales in Canada have increased moderately due to the improving housing sector and increases in auto and auto-related sales—further indications that the economy is recovering. The national retail vacancy rate increased moderately in 3Q, but has remained virtually unchanged for most of 2009.

LATIN AMERICA

The Latin America market continues to show signs of recovery based on the global surge in demand for commodities and the growing economic influence of the middle class. Lower interest rates, infrastructure stimulus projects and the continuation of social programs have kept consumer spending up. This is most prevalent in Brazil, Argentina and Chile, which have suffered only minor recessions. The latest concern is the rapid rise of local currencies affecting the region's global competitiveness.

Investment activity in Latin America is similar to other regions; inquiries are up but due to the lack of quality product, activity is still down significantly compared to a year ago. After almost a year hiatus, foreign investment activity appears to be returning but still remains weak for the region. Cap rates in general have increased slightly due to weakened demand and moderately softening market fundamentals.

The office markets, especially in Brazil, are showing some increase in demand. Vacancy levels increased moderately over the past year but appear to be leveling off. Leasing activity is still down significantly compared to a year ago, but is up over the past two quarters. Mexico's office market remains weak, but it is expected to turn with the economy in the coming months.

The industrial market continues to benefit from the resurgence in the economy. Class A industrial space remains the most in-demand product, especially that space with modern, high ceilings and efficient facilities. Rental rates, for the most part, remain flat.

EMEA

Economic conditions remain fragile across Europe, although some recent data suggest that the worst of the downturn is now giving way to the start of a gradual recovery. The somewhat surprising news that both France and Germany posted 2Q 2009 increases in GDP is consistent with the broader view that we are past the low point in the economic cycle.

A number of forecasters have tempered their views on the scale of overall economic downturn across Europe, with many expecting a resumption of year-over-year growth in early 2010. This outlook has been boosted by strengthening business sentiment in both services and manufacturing, although the strong Euro and cautious monetary policy are both potential drags on the recovery.

Concerns also persist about the labor market and, therefore, consumer demand. The labor market lags changes in economic activity, and in this recession many companies have reduced hours or cut wages to preserve jobs. These factors have masked the true scale of employment loss. As these expire and state measures to support the newly unemployed run out, a further dip in consumer demand is possible.

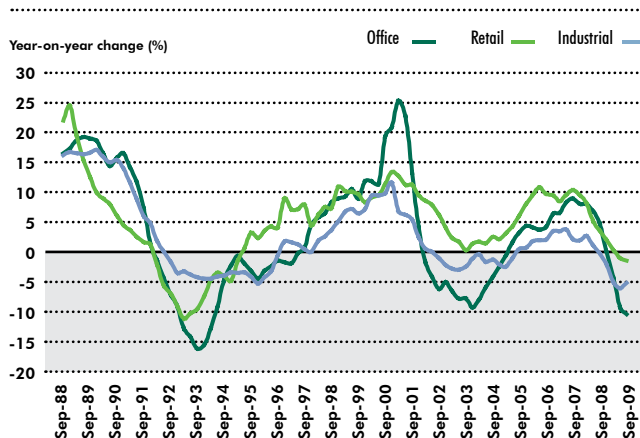
With a weak economy and declining tenant demand, European rents are falling across all sectors, as shown in Figure 7. Office rents in this cycle have fallen the furthest and retail rents the least. Industrial rents, which have fallen deeper in this cycle than in the previous two downturns, are moderating their decline, which is good news.

Office

Corporations remain concerned with maximizing the efficiency of their existing premises, and expansion appetite remains limited. As a result, office leasing activity across Europe as a whole this year will under-perform 2008 levels by as much as 30%.

Looking at specific major European office markets, Madrid remains weak with gross leasing totaling less

Figure 7: European Rents Falling Across All Sectors
CB Richard Ellis EU-15 Rental Value Index



Source: CB Richard Ellis

than half of last year's level. Activity is driven almost exclusively by downscaling and cost-saving imperatives. Leasing levels in the German markets are showing some signs of stabilizing quarter over quarter, but are still running at levels 25% below those of last year. Paris take-up in 3Q 2009 was the lowest since 2002 and, as in Germany, the full-year total is expected to be at least 25% lower than that of 2008.

By contrast, stronger indicators are emerging from some markets. In Central London, and the London City market in particular, the last three months have seen a marked improvement in both leasing activity and sentiment. Central London take-up rose by 60% in 3Q and, while quarterly variations can be misleading in a weak market, the volume of space under offer also rose sharply, suggesting that the recovery has some momentum. In addition, both the key City and West End markets of London saw reductions in vacancy rates this quarter.

Headline rents generally continue to see downward pressure, albeit still quite modest in a number of markets. The CBRE EU-15 index of prime office rents fell by 1.4% in 3Q 2009, the smallest quarterly decline for a year, which takes the year-over-year rate of change to -10.1%. Among the major Western Europe markets, some downward adjustments were recorded in the cities of London, Milan, Madrid and Barcelona,

as well as some German markets and U.K. regional centers. Steeper rental declines continue to be reported in Central and Eastern European markets, particularly Moscow and Kiev. Leasing incentives are increasing in most markets, and in many parts of Europe net effective rents are falling more rapidly than headline numbers suggest.

Industrial

In the European industrial market, occupiers' key concerns are the need to control costs to protect margins and a desire to maximize the efficiency of occupied space. This is producing lower levels of leasing activity and an increase in vacancy. The CBRE EU-15 index of prime industrial rents has been falling since mid-2008 and has dropped by 5% over the past year.

Demand is mostly focussed on modern flexible space in core strategic locations which, while more expensive in pure property terms, often allows greater efficiency gains to be made across the business. Since space of this kind is in short supply, some demand is emerging for build-to-suits where rents are more robust because occupiers are often prepared to accept longer leases and fewer incentives in these situations.

There is substantial variation in the degree of rental decline within Europe. In general, the established core locations of France, the Netherlands and Germany have held up best. By contrast, a number of CEE markets have seen significant slippage in rents, with weaker world trade affecting most of these markets.

Retail

The contraction in European economies and the accompanying rise in unemployment levels have dented consumer confidence and, to some extent, retail sales growth. The recent improvement in some economic indicators does not yet seem to be feeding through to retail sales, possibly because labor market uncertainty continues to affect consumers' spending patterns.

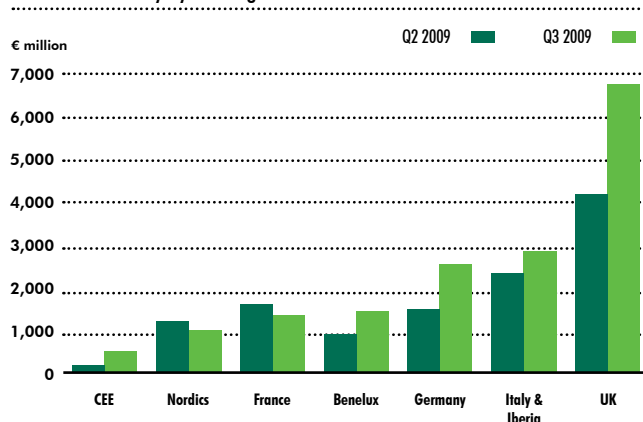
Levels of store traffic are down in some key markets such as Germany, and year-over-year sales figures across Europe are also down. The impact is uneven across the retail sector. Value retailers and food retailers have seen stronger sales figures than other sectors, such as clothing and fashion.

The impact on prime rental levels has so far been modest. The CBRE EU-15 index of prime office rents fell by just over 1% in the past year, but with trade in weaker markets suffering disproportionately, rents in many secondary locations will see larger declines.

Investment

If the occupier markets and rental growth are lagging the economic recovery, the real estate investment market appears to be picking up in advance of it. There was a distinct improvement in sentiment in Europe in 2Q 2009, and this has been reinforced with more improvement in activity in 3Q. At over €17 billion (US\$25 billion), the turnover of the investment market has grown by nearly 40% compared to 2Q 2009, despite the fact that the summer is traditionally a quiet period for the European market. The market was boosted by several large transactions, including the first two €1-billion-plus deals of the year.

Figure 8: European Investment Activity Rose in 3Q
Investment activity by sub-region



Source: CB Richard Ellis

This increase in activity, albeit from a very low level, shows that investors believe that we are at, or at least very close to, the bottom of the cycle in terms of capital values. However, it is notable that demand remains quite shallow and in most instances is highly focused at the prime end of the market. While there is competition for high-quality, well-let assets, more secondary properties continue to struggle to attract investor interest. The exception to this is in the U.K., where investor demand has spread more widely through the market.

Of the major European markets, the U.K. and Germany have seen the greatest increase in investment transactions; both grew by more than 50% quarter over quarter. However, France and Spain also recorded their highest quarterly total of the year. The high level of demand for prime property has stabilized yields in most major cities, and yields in Paris, London and some of the U.K. provincial cities are already trending downward.

Looking ahead, one factor constraining investment activity is the limited amount of prime properties for sale in some markets. Few vendors are eager to sell at this point in the cycle, and the possibility of improving market conditions is encouraging even those who are under pressure to sell to hold out in the hope of achieving higher prices in the near future.

PACIFIC

There were further signs of an improving economy in the Pacific Region during 3Q 2009. Positive employment growth in September helped push Australia's unemployment rate down to 5.7%, while the latest rate for New Zealand is at a similar 6.0%. Forecast unemployment peaks for this cycle were originally as high as 8.5%, but have now been revised downward to around 6.5%.

The housing sector is also picking up momentum, with prices in both Australia and New Zealand moving up again in 3Q 2009. This is further evidence of recent improvements in household and business confidence,

which are both now back in positive territory for the first time in two years.

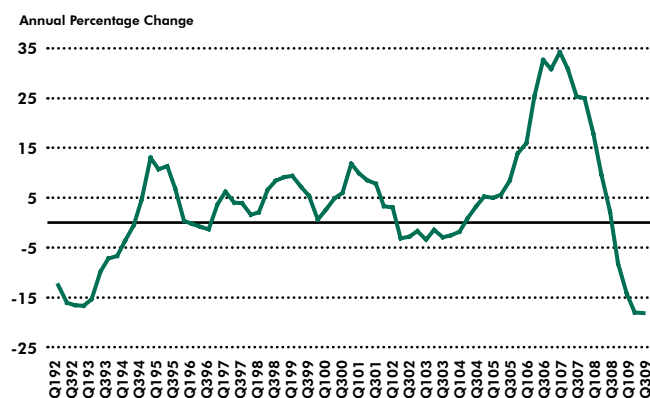
The Reserve Bank of Australia increased interest rates by 25 bps in October and November, the first central bank of the advanced Western economies to do so in this cycle. The official cash rate is now 3.5%.

In the investment market, trading activity is still low. Property sales during the first three quarters of 2009 were down 38% compared to the same time last year. Major transactions remain rare, with activity still driven by smaller properties and private equity capital. Bank lending for commercial property—investment or development—remains below the long-term average.

Quoted yield is now stabilizing across the region, with the benchmark retail series (Regional Shopping Centers) unchanged in 3Q 2009 and office and industrial sectors softening just 10 bps and 5 bps, respectively. These latter sectors are also expected to be stable by the end of 4Q 2009.

Figure 9 shows the Pacific CBD Value Index, which reflects the dramatic adjustments in value of office assets in that region.

Figure 9: Pacific Region Prime CBD Office Capital Value Index



Source: CB Richard Ellis

The occupational side of commercial real estate reveals a mixed performance by sector and market. In the office sector, the vacancy rate has continued to move up, reaching an estimated 8.5% at the end of 3Q 2009. This is now close to the forecast peak of 9.1% expected next year.

In a positive sign for the future, vacant sublease space is no longer being created, and some companies have actually taken office sublease space off the market in anticipation of needing it again soon. The driver of increasing office vacancy for the rest of this cycle is now likely to be regular lease expirations and new space coming into some markets.

Office rents fell just 0.6% in 3Q 2009 and like yield, the quarterly rate of change in this indicator is now also easing. Incentives offered by landlords stabilized in most markets in the quarter but continued to rise in Brisbane and Perth, where more new office buildings are to be completed in the short term.

Overall, vacancy in the retail sector remains low. In the retail property types for which vacancy is monitored, the highest rate currently recorded is just 5.0% (Brisbane CBD). The sector overall has been surprisingly resilient in this cycle, with stronger retailers looking to expand or relocate into better locations, keeping occupancy demand high and rents broadly stable.

Grade A warehouse rents slipped a further 1.0% in 3Q 2009, although like the other sectors, this rate of decline also eased substantially in 3Q. Demand for new industrial space has eased; there is a significant stock of developments approved and awaiting tenant demand and/or financing before the sector can move forward again.

ASIA

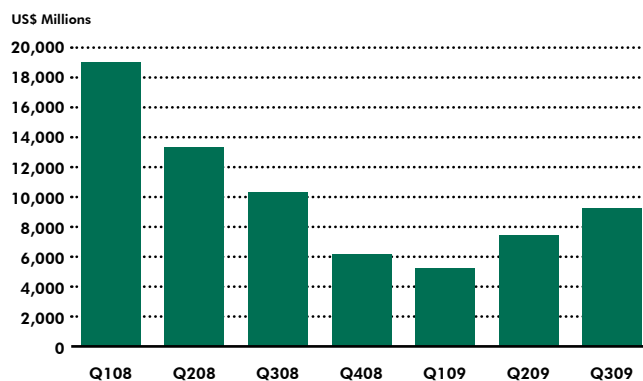
In 3Q 2009, the performance of Asia's economies generally exceeded expectations with several key indicators improving as compared to previous quarters.

The major policy interventions implemented by governments around the region appear to have been largely successful in supporting economic growth. Despite a number of macro risks and hurdles continuing to affect the global economic environment, consumer and business sentiment in Asia continued to improve—a trend reflected by the revival of the capital markets and rebound in asset prices in a number of key markets. Economists are now more optimistic regarding the prospects for the regional economy, and have lifted Asia's growth outlook on the heels of sustained growth in China and India. In October, the IMF revised upward the 2009 and 2010 GDP growth forecasts for Asia to 2.8% and 5.8%, respectively.

Investment activity in Asia's real estate markets continued to gain momentum in 3Q 2009 as capital values generally stabilized, sentiment improved and the bid-ask spread narrowed, particularly for quality yield-accretive assets in prime locations. Direct real estate investment in Asia jumped 25% quarter over quarter to an estimated US\$9.1 billion, according to CBRE data as shown in Figure 10. Hong Kong accounted for approximately 36% of the total volume followed by China, Korea and Taiwan.

Figure 10: Asian Volume is Rising

Asia Real Estate Investment Turnover



Source: CB Richard Ellis

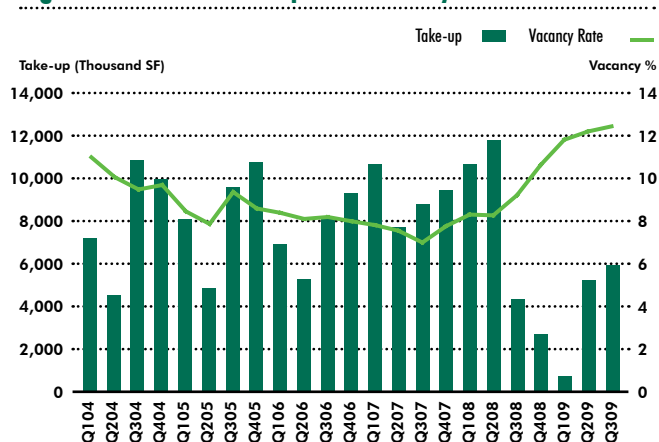
Cash-rich domestic buyers continued to underpin investment activity and were observed to be seeking out quality office and retail assets in prime locations within the region. Meanwhile, overseas investors are slowly moving off the sidelines, where many of them stood during the year's quiet first half, to look for medium- to long-term investments. However, it should be noted that several Asian governments have voiced concern that the real estate sector is rebounding too strongly, and have taken steps to limit risks associated with potential over-investment.

The downward trend of the Asian office leasing market stabilized in 3Q 2009 as the improvement in Asian employment markets generally provided a clear indication that the office market was nearing the bottom of the present cycle. With the exception of the export trade sector, corporations in Asia commenced expanding headcount and financial institutions began hiring staff to pursue high-margin businesses as economic conditions improved.

Office leasing activity gradually increased during the quarter after a quiet first half. Much activity was characterized by companies seeking to reduce pressure on profit margins by relocating to more cost-effective premises. Other corporate occupiers made a flight to quality by moving to prime buildings, more affordable now following the sharp rental correction witnessed over the previous year. A few sector-specific companies were also seeking to expand. Overall net absorption across the region increased 14%, quarter over quarter, with only three out of the 17 cities tracked still recording negative absorption, namely Singapore, Delhi and Manila.

Despite the improvement in business sentiment, occupiers remained cautious about real estate-related expenses. Landlords continued to display flexibility in negotiations, especially in cities with high vacancy rates and those that remain under pressure from a pipeline of new supply. While office rents remained still

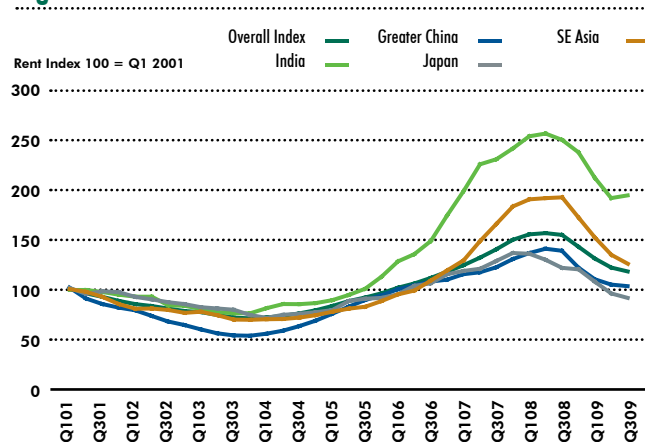
Figure 11: Asian Take-Up and Vacancy



Source: CB Richard Ellis

technically static in the latter part of the down cycle, the CBRE Asia Office Rental Index showed the pace of rental decline slowing. Overall, office rents in Asia fell 3.1% in 3Q, decelerating from the 6.7% decline witnessed in the previous quarter. Rents in Asian cities were either subject to a much slower rate of reduction or provided indications of slight improvement.

Figure 12: Asian Office Rental Index



Source: CB Richard Ellis

Asia's retail fundamentals were surprisingly more resilient during 3Q and have benefited greatly from the upward momentum of consumer spending and domestic demand, which have been encouraged by various stimulus measures. The period was generally

more favorable for markets where an emerging middle class is stimulating the emergence of rising levels of affluence in larger urban areas, such as China and India. By contrast, Asia's more developed economies, including Japan, Hong Kong and Singapore, witnessed the retail sales rate of decline diminish substantially in 3Q. Elsewhere, the retail sector in Taiwan, Indonesia and South Korea displayed a faster rate of recovery, with retail trade activity continuing to out-perform other markets in the region.

Despite the better-than-expected retail sales growth, the performance of prime retail rents continued to diverge across the various mature and emerging Asian markets. The quarter saw prime retail rents in most cities either decline at a slower rate or stabilize with a minor uptick. Generally speaking, however, retail rents for some well-located prime retail locations dominated by major international retail brands were less affected by the downturn, benefiting from the tight availability and competitiveness of such desirable space and landlords' consequent firmness in leasing negotiations. Looking ahead, the Asian retail property market is expected to recover gradually with increasing retail trade activity as we approach the end of 2009. However, the threat of supply-side risk remains significant in Singapore, certain cities in Mainland China, and India, all of which are still expecting a large quantum of shopping-mall construction to come online over the coming years.

Following the past year's severe contraction in inter-regional trade activity, 3Q 2009 saw some early signs of stabilization in the export sector as well as the revival of industrial output, as inventory restocking gradually began. Demand for warehouse and logistics facilities nevertheless remained fairly weak in key export-oriented markets including Hong Kong, China, Singapore,

Japan and Taiwan. However, industrial rents for factory and warehouse space were largely static during the quarter, mainly due to their relatively low base rental as compared to other property assets and the accumulated declines over the past few quarters. Most Asian countries recorded an easing of the decline rate in exports, most notably in South Korea, where the high 21% rate of decline recorded in August fell to a level of below 7% in September.

CONCLUSIONS

The synchronized Great Global Recession is clearly not being followed with a synchronized recovery. Some economies around the globe are still deteriorating while others are growing again, and most are finding or bumping along the bottom.

Commercial property fundamentals are following suit with most markets still declining—even in Asia, where some excess supply is evident due to a minor building period in the last year. Like the various economies, property fundamentals are also close to bottom. Even in the markets with the worst performance in 3Q 2009, there is general belief that the worst is in the past and stabilization is underway.

The pace of transaction volume is showing modest growth in EMEA and much stronger pick-up in Asia. Pricing is also reaching a bottoming phase in Europe and the U.S., while most of Asia has turned the corner.

It is premature to say the commercial real estate market is poised to start its rebound in 2010, but sentiment is on the upswing. We will see if improved sentiment translates into better data in 4Q 2009.

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